

## Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC

TO AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L STATE 091882

E.O. 11652:GDS

TAGS:ETRD, ES

SUBJECT: US - EL SALVADOR TEXTILE TALKS.

REF: A) SAN SALVADOR 167 B) STATE 14638

C) SAN SALVADOR 800

1. AFTER CAREFULLY CONSIDERING DESIRABILITY OF REACHING ACCORD WITH GOES ON BASIS OF MILIAN'S "MODEST PROPOSAL" (REFTEL A), WE HAVE REACHED CONCLUSION THAT MILIAN'S PROPOSAL WOULD PROVIDE "UMBRELLA" LEVELS UNDER WHICH ES 807 TRADE WOULD DEVELOP VERY RAPIDLY, WITHOUT PROVIDING USG WITH QUID PRO QUO IN FORM OF "LIMITATION" LEVELS WHICH WOULD ACT TO RESTRAIN SIZE AND GROWTH RATE OF ES 807 TEXTILE EXPORTS TO THE U.S. 807 EXPORTS FROM EL SALVADOR ARE PRESENTLY FALLING, AND WE BELIEVE THIS IS A RESULT OF UNCERTAINTY ON PART OF 807 INDUSTRY INVESTORS AND TRADERS REGARDING POSSIBLE RESTRAINT ACTION BY USG.

2. OUR PERCEPTIONS OF (1) US WITHDRAWAL OF ARTICLE III ACTION TAKEN AGAINST EL SALVADOR (2) MILIAN'S MODEST  
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PROPOSAL AND (3) FUTURE COURSE OF EVENTS ARE AS FOLLOWS:

-- (1) ARTICLE III: USG CAN IN MOST CIRCUMSTANCES, FORCE DEADLOCK IN TSB ON AN ARTICLE III CASE SUCH AS THAT TAKEN AGAINST EL SALVADOR. AT WORST, TSB DECISION WOULD INDICATE USG SHOULD RECONSIDER ACTION AND ADVISE TWO COUNTRIES TO CONTINUE TO CONSULT. HOWEVER, DURING PERIOD WHEN TSB WOULD HAVE CONSIDERED CASE USG-GOES RESTRAINTS, SALVADORIAN EXPORTS TO USG IN RESTRAINED CATEGORIES WERE FALLING. UNDER THE CIRCUMSTANCES, FORCING AN "UNHOSTILE" DECISION FROM THE TSB WOULD HAVE BEEN BOTH DIFFICULT AND COSTLY IN TERMS OF USG PRESTIGE AND INFLUENCE IN THAT FORUM. SINCE TRADE WAS FALLING AND US MARKETS WERE NO LONGER THREATENED BY SALVADORIAN TEXTILE EXPORTS, WE DECIDED THAT THIS WOULD BE TOO HIGH A COST TO PAY FOR THE RESTRAINTS. WE BELIEVE IT IS NEAR-SIGHTED, HOWEVER, TO SEE US WITHDRAWAL OF ARTICLE III AS RATIFICATION OF GOES HARD-LINE. ESSENTIAL POINT IS THAT TRADE WAS DROPPING, AND THREAT TO US MARKETS HAD CONSEQUENTLY RECEDED.

-- (2) MILIAN'S PROPOSAL: WE PERCEIVE MILIAN'S PROPOSAL AS ADMIRABLY CALCULATED ATTEMPT TO REMOVE UNCERTAINTY, MENTIONED PARA 1, BY OBTAINING FROM USG "INDICATION" THAT A PROPOSAL LEVEL WOULD BE ACCEPTABLE, THUS PROVIDING A GUARANTEED LEVEL OF TRADE (THE "UMBRELLA") WHICH WOULD SERVE TO ATTRACT INVESTMENT IN THE 807 INDUSTRY. GOES WOULD PRESUMABLY MAKE NO QUID PRO QUO IN FORM OF COMMITMENT TO RESTRAIN EXPORTS BELOW WHATEVER LEVEL MIGHT PROVE UNACCEPTABLE TO USG.

-- KEY DIFFICULTY IS, OF COURSE, SIZE OF LEVELS ACCEPTABLE TO BOTH COUNTRIES. ONLY GUIDE WE HAVE IS GOES POSITION THAT SPECIFIC CATEGORY LIMITS MUST BE AT LEAST 5 MILLION SQUARE YARDS EQUIVALENT (MYSE) AND THE AGGREGATE LIMIT 60 MSYE. THESE LEVELS ARE NOT ACCEPTABLE TO US.

-- (3) FUTURE COURSE OF EVENTS: WE BELIEVE SALVADORIAN 807 TEXTILE EXPORTS TO THE U.S. WILL RISE OVER COMING MONTHS, ALTHOUGH IT IS DIFFICULT TO PREDICT PACE OF INCREASE. LEVELS ARE BEING CLOSELY MONITORED. AS EMBASSY IS AWARE, CATEGORIES CONCERNED ARE ESPECIALLY SENSITIVE ONES, AND IF THREAT OF CONFIDENTIAL

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DISRUPTION AGAIN OCCURS IN U.S. MARKET, WE WILL AGAIN TAKE ARTICLE III ACTION.

3. USG PREFERS TO DEAL WITH TEXTILE TRADE PROBLEMS THROUGH MECHANISM OF ARTICLE IV BILATERALS, AND WE SHOULD EMPHASIZE THAT IF GOES ASPIRATIONS BECOME, IN FACT, MODEST, WE ARE PREPARED TO RESUME CONSULTATIONS WHICH BOTH COUNTRIES HAVE AGREED WERE NEVER CONCLUDED. IN MEANTIME, EMBASSY SHOULD ADVISE GOES, IN LOW-KEY

MANNER, AGAINST MISREADING USG DECISION NOT TO PURSUE  
ARTICLE III RESTRAINT ACTION IN GENEVA. TO REITERATE,  
SHOULD GOES TEXTILE EXPORTS AGAIN THREATEN TO DISRUPT  
U.S. MARKETS, WE WILL AGAIN EXERCISE OUR RIGHTS UNDER  
ARTICLE III. KISSINGER

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## Message Attributes

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